

# Photon Energy

**Buy**

Maintained

Price: CZK 67

Price target: CZK 105

(From: CZK 90)

## Expanding beyond physical assets

We reiterate our BUY on Photon Energy and increase our 12M price target (PT) to CZK 105/share (from CZK 90/share), yielding 56% upside. While we expect power prices to continue falling in Europe and we have also become more conservative on the company's capacity rollout, mainly in Poland, the hike in our PT is driven by Photon's recent acquisition of Lerta, a Polish power-tech company. Moreover, we assess the impact of recent regulatory changes in the region (caps and windfall taxes) as in line or even better than we expected previously. With double-digit EBITDA growth in the coming years, a healthy balance sheet and exposure to all of the segments of PV downstream, Photon remains one of our utilities top picks. Photon is trading at our 2022-24E EV/EBITDAs of 7.4-9.7x, 37% below its peer group, at attractive multiples, partly on the very low liquidity of its shares.

**Lerta acquisition is a good fit.** In December, Photon increased its stake in Lerta to 100%. Lerta, whose two co-founders are joining Photon, represents a strategically sound investment, with Photon increasing its knowhow and options in grid balancing, demand-side response/capacity and other fields. Lerta operates a virtual power plant and holds six energy trading licences in the region, while being the third-largest real-time asset aggregator in Poland.

**Romania to drive generation growth.** In Romania, Photon has already spent capex on its new 32MW merchant portfolio, which should contribute strongly to this year's EBITDA growth, offsetting the falling power prices, on our estimates. In Poland, which has imposed a very strict tax regime on generators, we become more conservative on the capacity rollout, but we still see new additions in Hungary this year. We expect Photon to build only merchant power plants from now on.

**Windfall taxes and caps impact limited.** With power prices falling below the EU's EUR 180/MWh cap already, tariffs not being taxed and no windfall taxation expected on net profit, Photon is one of the winners of the volatile market. Effectively, Photon faces only a modest negative impact in the Czech Republic and Hungary, and no impact in Slovakia and Romania. We are not aware of any new tax scheme being prepared in the region.

**Model update.** Our power price estimates remain relatively unchanged vs. our July update. We now see stronger 2022E EBITDA, in line with Photon's guidance and supported by last year's power price rally. Our capacity rollout forecasts have been cut – by 60MW in 2023E and 15MW in 2024E – lowering our generation EBITDA by 19% and 22%, respectively, over the next two years. However, with more clarity likely to be provided in next month's guidance release, we may update our conservative assumptions. On the flipside, our 2023-24E revenue expectations have increased by 35%, on average, driven by Lerta (with limited margins for now) and stronger technology sales.

**Valuation and risks.** Our 70:30 weighted DCF and peers valuation generate a 12M PT of CZK 105/share, or 56% upside. We add Lerta to our model, which brings additional upside, more than offsetting our higher WACC. The main risks for our forecasts are: CEE power price levels; government interventions; execution risks; and the supply chain issue in the PV industry, among others. Upside risk comes from a higher-than-modelled Romania load factor, or stronger revenues and margins than reflected in our model for Lerta.

Year	Sales (EUR m)	EBITDA (EUR m)	Net profit (EUR m)	EPS (EUR)	EPS growth	P/E (x)	P/CE (x)	EV/ EBITDA	DPS (EUR)	Dividend yield (%)
2019	30.4	7.9	-0.7	-0.01	n.m.	n.m.	14.4	19.6	0.00	0.0%
2020	28.6	8.4	-8.7	-0.15	n.m.	n.m.	30.1	31.4	0.00	0.0%
2021	36.8	9.6	-6.4	-0.11	n.m.	n.m.	14.0	18.4	0.00	0.0%
2022E	85.9	25.4	6.3	0.10	n.m.	24.2	5.9	9.7	0.00	0.0%
2023E	113.2	30.8	12.5	0.20	97%	12.3	5.4	9.3	0.00	0.0%
2024E	136.1	43.5	15.8	0.26	26%	9.7	3.3	7.4	0.00	0.0%

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### Expected events

4Q22 results 10 February (TBC)

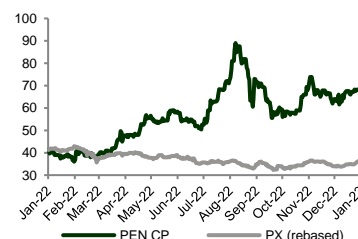
### Key data

Market Cap	EUR 152m
Free float	28%
3M ADTV	EUR 0.1m
Shares outstanding	60m
Major Shareholder	Mngt/cofounders (71%)
Bloomberg Code	PEN CP
PX Index	1,285

### Price performance

52-w range	CZK 36-89
52-w performance	+68%
Relative performance	+79%

### Photon 12M share price performance



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## Closing Prices as of 13 January 2023

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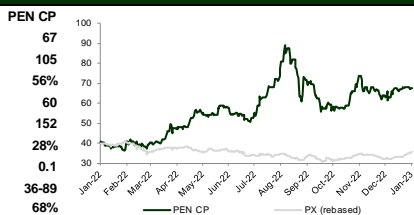
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# Company snapshot – BUY, PT CZK 105

## Photon Energy

### BUY

Bloomberg ticker	PEN CP
Closing price (CZK)	67
Price Target (CZK)	105
Upside to PT	56%
Shares outstanding (m)	60
MCAP (EUR m)	152
Free float	28%
ADTV (EUR m)	0.1
52 Week Range (CZK)	36-89
52 Week Performance	68%
52W Relative Performance	79%



### COMPANY DESCRIPTION

Photon Energy Group, founded in 2008 and based in the Netherlands, is a vertically-integrated utility in the downstream segment of the photovoltaic industry. Its business model covers the whole life cycle of a power plant, from development through to electricity generation, to decommissioning. Currently, Photon operates more than 90MW of its own PV capacity, in CEE and Australia, and maintains around 300MW of solar plants, mainly in Europe. Photon is also active in the water treatment business, awaiting the results of its R&D currently, and it took full control of Lerta, a Polish power-tech company, recently. Moreover, Photon holds an equity state in an Australian developer of solar battery storage and generation – RayGen. The shareholder structure is composed of two main players, namely: Solar Future (Michael Gartner, CTO) and Solar Power to the People (Georg Hotar, CEO), which control 70% of the company's shares. Roughly 28% of shares will be in free float after the Lerta acquisition has been finalised.

### RATIOS

PER SHARE RATIOS	2019	2020	2021	2022E	2023E	2024E	VALUATION RATIOS	2019	2020	2021	2022E	2023E	2024E
EPS	-0.01	-0.15	-0.11	0.10	0.20	0.26	P/E	n.m.	n.m.	n.m.	24.2x	12.3x	9.7x
CEPS	0.10	0.10	0.10	0.43	0.47	0.76	P/CF	14.4x	30.1x	14.0x	5.9x	5.4x	3.3x
BVPS	0.63	0.67	0.86	0.96	1.15	1.41	P/B	2.3x	4.5x	1.7x	2.6x	2.2x	1.8x
DPS	0.00	0.00	0.00	0.00	0.00	0.00	EV/EBITDA	19.6x	31.4x	18.4x	9.7x	9.3x	7.4x
EV/Sales	5.1x	9.3x	4.8x	2.9x	2.5x	2.4x	EV/EBIT	135.8x	2,055.7x	n.m.	16.6x	15.8x	11.6x
Op. cash flow/capex	0.3x	0.5x	1.3x	2.1x	1.1x	0.7x	Cash flow from ops, EUR m	6.2	6.0	6.2	25.8	28.8	46.6
EBITDA margin	26.2%	29.5%	26.1%	29.6%	27.2%	32.0%	EV, CZK m	4,063	7,009	4,690	6,607	7,649	8,621
EBIT margin	3.8%	0.5%	-3.0%	17.4%	16.1%	20.5%	FCF, EUR m	-8	-14	-8	1	5	-19
Net margin	-2.4%	-30.4%	-17.5%	7.3%	11.1%	11.6%	FCF yield	-0.4%	-0.3%	-0.3%	0.0%	0.1%	-0.5%
ROE	n.a.	-22.3%	-14.0%	11.4%	19.6%	20.2%	Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net debt/(cash) to equity	1.8x	2.1x	1.7x	1.7x	1.9x	2.0x							
Net debt/EBITDA	8.5x	10.0x	9.3x	3.8x	4.3x	3.9x							

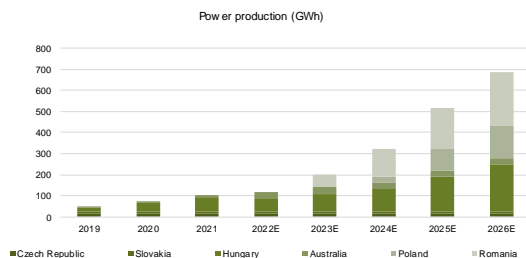
### COMPANY FINANCIALS

INCOME STATEMENT, EUR m	2019	2020	2021	2022E	2023E	2024E	BALANCE SHEET, EUR m	2019	2020	2021	2022E	2023E	2024E
Revenues	30.4	28.6	36.8	85.9	113.2	136.1	Current assets	28.4	23.9	54.2	73.5	60.3	120.8
COGS & opex	-22.4	-20.2	-27.2	-60.4	-82.4	-92.5	Cash & Equivalents	12.4	9.9	32.5	43.8	26.1	82.9
EBIT	1.1	0.1	-1.1	15.0	18.2	27.9	Trade receivables	10.4	6.1	9.1	14.2	17.0	19.3
Depreciation	6.8	8.3	10.7	10.5	12.7	15.7	Inventories	1.2	1.0	2.2	5.2	6.8	8.2
EBITDA	7.9	8.4	9.6	25.4	30.8	43.5	Other	4.3	6.8	10.4	10.4	10.4	10.4
Generation	11.6	12.9	17.2	26.6	32.8	42.0	Non-current assets	108.7	135.1	142.5	146.3	161.5	215.7
O&M	-0.6	-0.1	0.2	0.6	1.0	1.5	Tangible	102.0	126.3	127.5	131.4	146.6	200.7
Solutions	6.6	9.1	-2.5	0.9	1.9	6.2	Intangible	0.9	1.3	0.8	0.8	0.8	0.8
Technology	0.0	0.5	1.5	4.9	5.1	4.4	Other	5.7	7.5	14.1	14.1	14.1	14.1
Other	-0.3	-1.6	-6.1	-7.0	-8.9	-8.9	Total assets	137.0	158.9	196.6	219.8	221.8	336.5
Financial income/(expense) & other	-4.4	-5.9	-6.5	-7.7	-9.3	-11.0	Current liabilities	12.3	15.2	34.0	24.9	26.6	28.1
Profit before Tax	1.0	-6.5	-5.9	7.5	9.1	17.1	ST debt	3.7	6.0	28.5	16.4	16.4	16.4
Income tax due/deferred	-1.7	-2.2	-0.5	-1.0	-0.6	-5.6	Trade payables	7.4	7.2	4.5	7.5	9.3	10.7
Profit/loss	-0.7	-8.7	-6.4	6.3	12.5	15.8	Other	1.2	1.9	1.0	1.0	1.0	1.0
							Non-current liabilities	86.8	103.6	111.1	137.1	124.9	222.3
							LT debt	76.4	90.9	98.3	124.3	112.1	209.5
							Other	10.4	12.7	12.8	12.8	12.8	12.8
							Total liabilities	99.2	118.8	145.1	162.0	151.5	250.4
							Minority interest	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2
							Shareholders' equity	37.8	40.1	51.5	57.8	70.3	86.1
							Total liabilities and equity	137.0	158.9	196.6	219.8	221.8	336.5
							Net Debt	67.3	84.5	89.1	96.6	133.1	169.6
							Change in Net debt	14	17	5	8	36	36

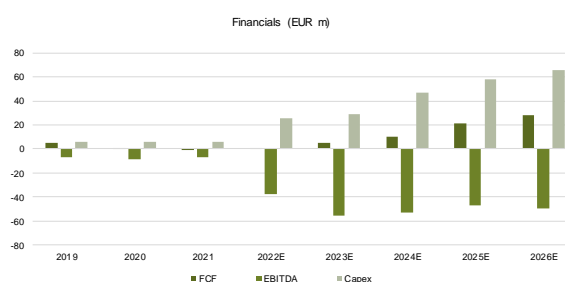
OPERATIONS	2019	2020	2021	2022E	2023E	2024E
Generation capacity, MW	37	80	91	92	161	264
Growth (yoy)	46%	117%	13%	1%	75%	64%
Czech Rep	15	15	15	15	15	15
Slovakia	10	10	10	10	10	10
Hungary	12	40	51	52	71	86
Australia	0	15	15	15	15	15
Poland	0	0	0	0	0	28
Romania	0	0	0	0	50	110

MACRO ASSUMPTIONS	2019	2020	2021	2022E	2023E	2024E
Inflation, EU	1.2%	0.3%	1.5%	8.4%	3.3%	2.0%
German power price, EUR/MWh	49	46	89	280	175	135
Generation volume, GWh	44	70	103	122	200	324
Growth (yoy)	54%	60%	48%	18%	65%	62%

### Generation by country forecast



### FCF, EBITDA and capex forecasts



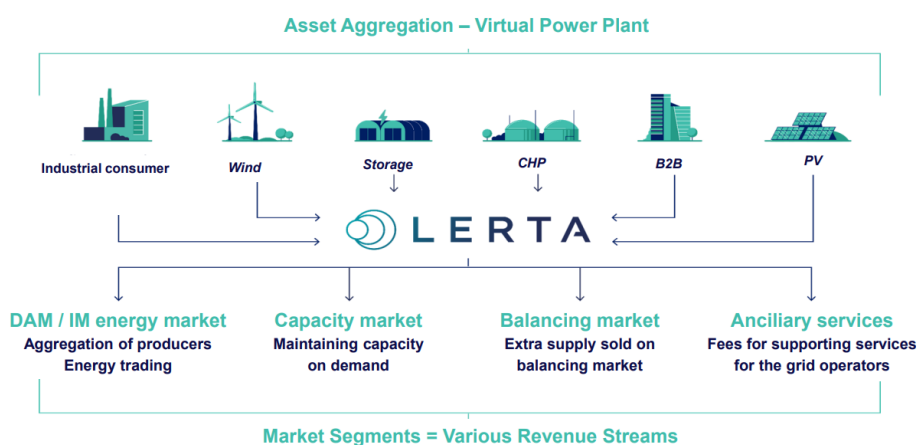
## Lerta acquisition – strategically sound expansion

Last month (December 2022), Photon became the full owner of Lerta, acquiring a 43% stake from two founding shareholders, via cash and its own shares (EUR 0.5m and 3.6m shares, respectively). Photon has been a Lerta shareholder indirectly since 2018, and invested directly in the company in 2020, by buying a 12% stake. Earlier, in November last year, Photon increased its stake in the company to 57%, buying 32% of the shares from venture funds (PGE Ventures, ValueTech Seed Fund and Newberg), for EUR 6.9m.

Lerta's founders will now join Photon: Borys Tomala will become the Director of Photon Energy's newly-established New Energy Division, and Krzysztof Drożyński will continue in his role as the Head of Advanced Technologies. The full takeover is expected to close in 1Q23E and we already assume a new shareholder structure at Photon, a different number of shares and free float, and the consolidation of Lerta's numbers starting from this year.

Based in Poland, but active across the region, Lerta operates a virtual power plant (VPP), owns energy trading licenses in six countries, holds a third position in the Polish demand side response (DSR) market, with capacity contract secured for this year already. Photon expects Lerta to improve its own grid flexibility while offering the same service to third parties, with the renewables production on the rise, balancing through gas generation too expensive and grid investments reacting too slowly to the changing production mix.

### Lerta: business model



Source: Company data

Through the acquisition, Photon increases its team by roughly 100 members, of which 30 are a salesforce, likely to boost also Photon's other-than-Lerta revenues, in our view.

For this year, Lerta has secured 134MW of DSR capacity in Poland, representing contracted revenues of EUR 7.7m, and the company is already preparing to enter the additional auction for 2024E, to be held in March 2023, with at least 300 MW of DSR capacity. Until 2030E, Lerta aims to grow its Polish DSR portfolio by a minimum of 100MW per year (500MW of DSR in 2026E). For 2027E, the company has already secured a 157MW contract (EUR 13.6m). In 2025E, the expansion of DSR participants is planned, with players from Germany, the Czech Republic, Slovakia, Lithuania and Sweden allowed to participate in providing DSR services to PSE. According to Photon, Lerta is making preparations for this expansion.

We are yet to receive more detailed information on the company's other revenues and our current estimates might be inaccurate. However, we estimate close to EUR 10m of new revenues for Photon and breakeven EBITDA is doable this year already, before further growth is boosted by new capacity contracts, Lerta addressing new customers and Photon's generation portfolio becoming more effective, thanks to Lerta's knowhow. In our model, Lerta's earnings contribution becomes a part of the Solutions segment.

## Valuation: BUY, PT CZK 105, 56% upside

We value Photon at CZK 105/share, implying 56% upside. Our valuation is derived from our DCF and peer EV/EBITDA calculations, weighted 70% and 30%, respectively. As Photon does not plan to distribute dividends soon, we do not employ a DDM and, due to the relatively volatile net profit forecasts of Photon and its competitors, we also skip the P/E valuation for now.

As we believe Photon should also attract interest in Poland, Germany and other markets, we also show PLN and EUR PTs. Both, implied by the current 1Y forward FX rates, generate similar upside to our PT in CZK, as shown in the table below.

### Valuation summary

	PT CZK/share	Upside
DCF	93	39%
Peers (EV/EBITDA)	131	95%
<b>Weighted average (70:30)</b>	<b>105</b>	<b>56%</b>
<b>Implied PLN and EUR PTs</b>		
12M PT PLN/sh	20.1	54%
12M PT EUR/sh	4.02	58%

Source: Bloomberg, WOOD Research

### DCF

Our DCF valuation yields upside of 39%, or a 12M PT of CZK 93/share. Our assumptions are:

- ✓ A WACC of 9.2% across our forecast period (up from 7.8% previously), produced from a debt-adjusted beta of 1.2x (up from 1.3x previously), an ERP of 5.0% (without change), and a risk free rate of 6.0% (up from 4.5% previously), which yields a cost of equity of 12.0% (up from 10%, previously), and a cost of debt of 8.0% (up from 6.4%).
- ✓ Terminal growth of 2.5%.
- ✓ Our DCF period covers 2022-27E, by which time we believe the CEE capacity targets should be met, on our numbers. We note that the 300MW RayGen project is not included in our valuation (first 50MW planned for 2024E) and our CEE capacity addition estimates are more conservative than management's, due largely to the situation on the market, not the company itself.
- ✓ While we use our house power price estimates for the markets in which Photon operates, except for Australia, where we rely on the company's guidance and the local power market, we prefer to focus on the current growth story of the next six years, rather than longer-term forecasts, where the sensitivity of long-term power prices and cost inflation alter the valuation significantly, to both the upside and the downside. Also, Photon is yet to prove that the 2024E targets are not too ambitious and our one-to-two year lag is punishing the valuation already, in our view, with more upside potential.

### DCF

EUR (000s)	2022E	2023E	2024E	2025E	2026E	2027E
EBIT	14,980	18,187	27,869	41,131	45,977	48,352
Depreciation	10,458	12,656	15,662	20,160	24,325	25,677
Capex	-3,503	-46,956	-68,801	-105,934	-96,483	-24,054
Working capital	-4,967	-2,763	-2,315	-3,119	-2,937	-2,937
Tax	-996	-637	-5,574	-8,226	-10,695	-11,170
<b>FCF</b>	<b>15,971</b>	<b>-19,513</b>	<b>-33,159</b>	<b>-55,988</b>	<b>-39,813</b>	<b>35,868</b>
Discount factor	1.00	0.92	0.84	0.77	0.71	0.65
<b>Discounted FCF</b>	<b>16,017</b>	<b>-17,921</b>	<b>-27,888</b>	<b>-43,121</b>	<b>-28,080</b>	<b>23,166</b>
<b>Discounted cash flows</b>	<b>-77,826</b>					
Terminal value	354,403			Risk free		6.0%
Enterprise value	276,577			Beta		1.20
2021 net debt	89,104			ERP		5.0%
Minorities	150			Cost of equity		12.0%
<b>Equity value</b>	<b>187,323</b>			Weight of equity		30.0%
PT, CZK/sh	83			Weight of Debt		70.0%
<b>12M PT, CZK/sh</b>	<b>93</b>			Cost of debt, net tax		8.0%
Upside	39%			<b>WACC</b>		<b>9.2%</b>

Source: Company data, WOOD Research

## Peer valuation

Our peer valuation approach remains unchanged. Photon is the first pure solar (and water treatment) company under our coverage. Looking at the CEE region, there are no well-covered solar companies with publicly available forecasts by the sell-side. Therefore, we have chosen a mix of western European and US companies, which have similar business models, sizes and growth profiles. However, the basket is not perfect, we admit. The peer 2022-24E EV/EBITDAs, on the Bloomberg consensus, produce a higher PT than our DCF, due most likely to the low liquidity of shares traded. Therefore, we have decided to place only a 30% weight on the peer valuation, as Photon's business model is specific and exposed to a different region. Regarding the other multiples, e.g., P/E and P/CF, we believe it is premature to use these, given the volatility of earnings at both Photon and its peers.

We note that we expect Photon's EBITDA margin to grow gradually, thanks mostly to the higher weight of power generation, but we also expect other segments' profitability to improve over our forecast period. However, being an integrated solar utility, with segments such as technology trading or engineering, it still produces lower margins than most of the peers below, which are more invested in high-margin power generation. Despite these lower margins vs. its peers, we believe that this is where the added value is at Photon – a business model that can grow in any solar downstream direction globally, while not overpaying for generation capacity expansion.

On our numbers, Photon is trading at 2022-24E EV/EBITDAs of 7.4-9.7x, at a 37% discount vs. the peer average. Despite the low liquidity, we believe these multiples are attractive. Our peer valuation yields 95% upside, or CZK 131/share.

### Peer valuation: EV/EBITDA

EUR 000s	2022E	2023E	2024E
Peer multiple	16.1	13.2	12.5
EBITDA	25,437	30,843	43,531
Net debt	96,637	133,105	169,595
<b>Equity value</b>	<b>311,980</b>	<b>274,480</b>	<b>375,540</b>
Average	293,230		
<b>CZK/sh</b>	<b>131</b>		
<i>Upside</i>	95%		

Source: Bloomberg, WOOD Research

### Valuation multiples of selected peers

Company		MCAP (EUR m)	AVTD 3M (EUR m)	EV/EBITDA			EBITDA growth			EBITDA margin		
				2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
ABO Wind	EUR	716	0.2	22.3	16.9	15.0	6%	30%	10%	18%	20%	20%
Azure Power Global	USD	234	1.6	6.8	6.2	n.a.	32%	9%	n.a.	81%	84%	n.a.
Encavis	EUR	3,020	0.1	15.2	14.3	13.7	25%	7%	4%	75%	75%	75%
Greenergy Renovables	EUR	902	1.6	20.2	15.5	13.0	49%	81%	50%	33%	40%	47%
Neoen	EUR	4,168	4.8	18.2	15.8	14.9	31%	23%	19%	82%	84%	83%
Scatec	NOK	1,276	2.9	12.8	11.5	10.2	-11%	29%	32%	61%	60%	66%
Solaria Energia	EUR	2,445	9.3	21.8	17.0	14.4	59%	41%	28%	88%	87%	87%
Voltaia	EUR	2,355	1.1	19.3	13.5	12.3	36%	50%	14%	41%	51%	53%
7C SolarParcken	EUR	361	0.3	8.1	8.2	6.8	41%	-2%	-12%	86%	84%	79%
<b>Average</b>		<b>1,720</b>	<b>2.4</b>	<b>16.1</b>	<b>13.2</b>	<b>12.5</b>	<b>30%</b>	<b>30%</b>	<b>18%</b>	<b>63%</b>	<b>65%</b>	<b>64%</b>
<b>Photon</b>		<b>168</b>	<b>0.1</b>	<b>9.7</b>	<b>9.3</b>	<b>7.4</b>	<b>165%</b>	<b>21%</b>	<b>41%</b>	<b>30%</b>	<b>27%</b>	<b>32%</b>
Discount peers, delta				-39%	-30%	-41%	136%	-8%	23%	-33%	-38%	-32%

Source: Bloomberg, WOOD Research

We are now more bullish vs. our July update on 2022E, which is in line with both the company's revised guidance and the operating report released this week. In 2023-24E, our sales estimates are higher, due mainly to stronger expectations in the Technology segment, but also driven by Lerta's revenues. These more than offset our now slower pipeline rollout, but are not strong enough to compensate for the lower EBITDA expectations, after we reduce the much more profitable generation outlook.

### Model update

EUR m	Revenues			EBITDA			Net profit		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
New	85.9	113.2	136.1	25.4	30.8	43.5	6.3	12.5	15.8
Old	64.1	81.6	102.8	20.3	32.3	49.5	3.3	11.1	17.3
% Difference	<b>34.0%</b>	<b>38.7%</b>	<b>32.4%</b>	<b>25.3%</b>	<b>-4.5%</b>	<b>-12.1%</b>	<b>89.5%</b>	<b>13.0%</b>	<b>-8.7%</b>

Source: WOOD Research

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## Risks

**Power prices.** Our model is based on Photon selling a large portion of its generated power through merchant pricing, opting out of the regulatory schemes where it can, until the market power price drops below the regulated one, after which the plants would return to regulated earnings, if not before. We believe that our future power price estimates are conservative enough, but we stress that there is both upside and downside to our estimates, depending on the future developments on both the European and Australian power markets. With most of the EBITDA coming from Electricity Generation (90%, after adjusting for Other EBITDA, which includes the company-level costs), the risks are clearly skewed towards the generation segment, rather than the stable, service-like earnings of the other segments. Over time, when power prices fall and the other segments grow with the market, including the water treatment business, the power price risk will fall.

**Regulatory risks.** As with any other utility, the majority of Photon's EBITDA comes from power generation, which is facing an increasing risk of government intervention in all of the countries in which it operates, given the ongoing elevated power prices. From last year already, Photon has been already running most of its PV capacity at merchant pricing and we have already seen changes in the remuneration schemes in the Czech Republic and Slovakia recently. Having said that, any form of price caps, additional changes in remuneration schemes or other measures could result in downside for our current estimates and valuation.

**Execution risk.** The company plans to reach 600MW of generation capacity by 2024E, which would mean that its production capacity would grow almost sevenfold vs. its current capacity. The current pipeline looks busy and the targets are achievable, in our view. However, either due to delays on the company's end or caused by third parties, this target may not be reached, which we reflect in our model.

**Supply chain issues/inflating costs.** While the LCOE of the PVs has dropped around 90% over the past two decades and the recent price spike stands at roughly 20% for a MW of PV capacity, the supply chain disruptions and the unprecedented demand for new solar capacity, coupled with inflation, could increase the company's capex/MW further, or delay the pipeline, due to missing parts.

**Disclosure and modelling.** For a small cap, considering our coverage universe, Photon has detailed disclosure, we see the company and its majority shareholders as transparent, and Photon is doing, in our view, what it can do reach out to the market, through a well-prepared IR team and improving segmental disclosure. That said, we still find it quite difficult to model the Engineering and Technology arms of the business and their future value add for the Electricity Generation profitability, as well as their own long-term revenue growth and margins. Moreover, we prefer pencilling in conservative load factors in Romania, where Photon just built 32MW of new capacity, and believe our Lerta estimates are also cautious. Separately, the water business and its potential upside are not fully reflected in our numbers, nor the giant 300MW RayGen project and the rights to it. Therefore, we may adjust our numbers in future, in line with the upcoming developments, observing the market trends, the company's performance and more detailed guidance on each of the projects mentioned above. We believe we are conservative in our assumptions, and we see the risks as more skewed to the upside, rather than the downside.

**Main shareholders.** Mr. Hotar and Mr. Gartner own around 70% of the company's shares. We are not aware of them planning to dispose of their stakes, and we are pleased with the corporate governance at Photon, but we note that the business is highly dependent on their leadership, from the CEE capacity growth to new developments in Australia.

**Competition.** Photon operates in a very competitive space. It is a well-established player in each of the solar segments, and competes with both large, international players on larger-scale projects, as well as many more smaller players, focusing on smaller projects. Similarly, in the Engineering, Technology and O&M segments, the market is extremely competitive, and the company has yet to show the market that it can succeed in new markets, such as Poland and Romania.

**Liquidity of shares.** Photon is traded in Prague, Warsaw and Germany. Being a small cap, the combined 3M daily liquidity stands at only EUR 0.1m.

# Financials

## Income statement

EUR m	2019	2020	2021	2022E	2023E	2024E
<b>Revenues</b>	<b>30.4</b>	<b>28.6</b>	<b>36.8</b>	<b>85.9</b>	<b>113.2</b>	<b>136.1</b>
Raw materials and consumables used	-9.8	-4.6	-12.7	-14.6	-18.6	-31.0
Solar levy	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
personnel expenses	-4.6	-5.8	-6.7	-7.3	-7.5	-7.7
Other expenses	-7.1	-8.9	-6.8	-37.6	-55.3	-53.0
<b>EBITDA</b>	<b>7.9</b>	<b>8.4</b>	<b>9.6</b>	<b>25.4</b>	<b>30.8</b>	<b>43.5</b>
Depreciation	-6.8	-8.3	-10.7	-10.5	-12.7	-15.7
Impairments	-0.1	-0.4	-0.2	0.0	0.0	0.0
Gain (loss) on disposal of investments	4.3	0.0	0.5	0.0	0.0	0.0
Share of profit equity-accounted investments	0.0	0.1	0.1	0.0	0.0	0.0
<b>EBIT</b>	<b>5.4</b>	<b>-0.1</b>	<b>-0.7</b>	<b>15.0</b>	<b>18.2</b>	<b>27.9</b>
Financial income	0.2	0.1	0.2	0.2	0.2	0.2
Financial expenses	-4.7	-6.0	-6.8	-7.7	-9.3	-11.0
<b>Profit before Tax</b>	<b>1.0</b>	<b>-6.5</b>	<b>-5.9</b>	<b>7.5</b>	<b>9.1</b>	<b>17.1</b>
Result from discontinued operations				<b>0.0</b>	<b>4.3</b>	<b>4.5</b>
Income tax due/deferred	-1.7	-2.2	-0.5	-1.0	-0.6	-5.6
<b>Profit/loss</b>	<b>-0.7</b>	<b>-8.7</b>	<b>-6.4</b>	<b>6.3</b>	<b>12.5</b>	<b>15.8</b>

Source: Company data, WOOD Research

## Balance sheet

EUR m	2019	2020	2021	2022E	2023E	2024E
<b>Current assets</b>	<b>28.4</b>	<b>23.9</b>	<b>54.2</b>	<b>73.5</b>	<b>60.3</b>	<b>120.8</b>
Cash & Equivalents	12.4	9.9	32.5	43.8	26.1	82.9
Trade receivables	10.4	6.1	9.1	14.2	17.0	19.3
Inventories	1.2	1.0	2.2	5.2	6.8	8.2
Other	4.3	6.8	10.4	10.4	10.4	10.4
<b>Non-current assets</b>	<b>108.7</b>	<b>135.1</b>	<b>142.5</b>	<b>146.3</b>	<b>161.5</b>	<b>215.7</b>
Tangible	102.0	126.3	127.5	131.4	146.6	200.7
Intangible	0.9	1.3	0.8	0.8	0.8	0.8
Other	5.7	7.5	14.1	14.1	14.1	14.1
<b>Total assets</b>	<b>137.0</b>	<b>158.9</b>	<b>196.6</b>	<b>219.8</b>	<b>221.8</b>	<b>336.5</b>
<b>Current liabilities</b>	<b>12.3</b>	<b>15.2</b>	<b>34.0</b>	<b>24.9</b>	<b>26.6</b>	<b>28.1</b>
ST debt	3.7	6.0	28.5	16.4	16.4	16.4
Trade payables	7.4	7.2	4.5	7.5	9.3	10.7
Other	1.2	1.9	1.0	1.0	1.0	1.0
<b>Non-current liabilities</b>	<b>86.8</b>	<b>103.6</b>	<b>111.1</b>	<b>137.1</b>	<b>124.9</b>	<b>222.3</b>
LT debt	76.4	90.9	98.3	124.3	112.1	209.5
Other	10.4	12.7	12.8	12.8	12.8	12.8
<b>Total liabilities</b>	<b>99.2</b>	<b>118.8</b>	<b>145.1</b>	<b>162.0</b>	<b>151.5</b>	<b>250.4</b>
<b>Minority interest</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.2</b>
<b>Shareholders' equity</b>	<b>37.8</b>	<b>40.1</b>	<b>51.5</b>	<b>57.8</b>	<b>70.3</b>	<b>86.1</b>
<b>Total liabilities and equity</b>	<b>137.0</b>	<b>158.9</b>	<b>196.6</b>	<b>219.8</b>	<b>221.8</b>	<b>336.5</b>

Source: Company data, WOOD Research



## Cash flow statement

EUR m	2019	2020	2021	2022E	2023E	2024E
Profit before income tax	1.0	-6.5	-5.9	7.5	9.1	17.1
Depreciation and amortisation	6.8	8.3	10.7	10.5	12.7	15.7
Finance costs	4.4	6.4	5.2	7.5	9.1	10.8
Other	-4.5	0.5	3.7	4.3	0.0	-0.2
<b>Operating cash flows before WC changes</b>	<b>7.7</b>	<b>8.6</b>	<b>13.7</b>	<b>29.8</b>	<b>30.9</b>	<b>43.3</b>
WC changes	0.7	-2.4	-5.0	-5.0	-2.8	-2.3
Income tax paid	-0.3	0.8	-2.3	1.0	0.6	5.6
Other	-1.9	-1.0	-0.1	0.0	0.0	0.0
<b>Net cash from operating activities</b>	<b>6.2</b>	<b>6.0</b>	<b>6.2</b>	<b>25.8</b>	<b>28.8</b>	<b>46.6</b>
Capex	-19.7	-18.3	-8.6	-14.3	-27.9	-69.8
Other	5.3	-1.9	-5.6	-10.0	4.3	4.5
<b>Net cash used in investing activities</b>	<b>-14.4</b>	<b>-20.2</b>	<b>-14.2</b>	<b>-24.3</b>	<b>-23.5</b>	<b>-65.3</b>
Net proceeds from borrowings	15.4	18.6	29.8	17.5	36.5	36.5
Other	-3.7	-6.7	-6.9	-7.7	-9.3	-11.0
Capital increase	0.0	0.2	7.8	0.0	0.0	0.0
<b>Net cash used in financing activities</b>	<b>11.7</b>	<b>12.1</b>	<b>30.6</b>	<b>9.8</b>	<b>27.2</b>	<b>25.5</b>

Source: Company data, WOOD Research

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25/05/2022	BUY – initiation of coverage	25/05/2022	CZK 84
		21/07/2022	CZK 90.0
		16/01/2023	CZK 105

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